Maritime Electric Company, Limited

88-03364/

Maritime Electric Company, Limited is a Canadian investor-owned electric utility based in Prince Edward Island. Established in 1918, the Company owns and operates a fully integrated system providing for the generation, transmission and distribution of electricity throughout the Island. Maritime Electric operates generating plants in Charlottetown and Borden, and has an equity interest in NB Power's unit in Dalhousie, New Brunswick. Its 4100 km distribution system and 500 km transmission system are linked to the mainland power grid by two submarine cables between the Island and the Province of New Brunswick. The Company maintains its executive and head administrative offices in Charlottetown with branch offices in Sherbrooke and Montague. Maritime Electric Company, Limited's shares are traded publicly on the Montreal and Toronto stock exchanges.

Financial Highlights

	1987	1986
Operating revenue	**$ 61,111,248**	$ 53,993,649
Operating expenses	**43,209,523**	37,037,476
Net earnings	**5,121,252**	5,314,605
Earnings per common share	**1.34**	1.41
Dividends declared per common share	**0.77**	0.7166
Capital expenditures (net)	**11,237,712**	8,846,461
Gross fixed assets	**$125,594,574**	$115,751,009
Sales (kWh)	**579,800,000**	538,600,000
Number of customers	**47,500**	46,200
Number of common shareholders	**1,470**	1,204

Common Share Quarterly Statistics

1987	First	Second	Third	Fourth
Earnings per share	$0.47	0.29	0.40	0.18
Dividends declared per share	$0.19	0.19	0.19	0.20
Share price[1] -high	$14½	14½	14¼	12⅛
-low	$13⅛	13¼	12¼	10¼
Shares traded[2] (000's)	92.7	52.2	52.6	78.7

1986	First	Second	Third	Fourth
Earnings per share	$0.48	0.43	0.39	0.11
Dividends declared per share	$0.1733	0.1733	0.18	0.19
Share price[1] -high	$11⅝	13⅛	13	14
-low	$10¼	11½	11½	12⅛
Shares traded[2] (000's)	103.2	106.6	47.3	91.6

[1] Prices quoted on The Toronto Stock Exchange
[2] Combined volume of shares traded on The Toronto and Montreal Stock Exchanges.

Message to Shareholders

Strong performance in all areas of Maritime Electric's business produced continued growth and positive financial results in 1987.

Revenue amounted to $61 million, up from $54 million in 1986 while operating expenses rose to $43 million from $37 million. Record sales of 579,800,000 kWh were achieved in 1987, up more than 41 million kWh over 1986, an increase of 7.6%.

Net earnings applicable to common shares decreased by 3.9% from $4.38 million in 1986 to $4.21 million in 1987. Earnings per common share were $1.34, down from $1.41 in 1986. This decline was due to a decrease in the allowed rate of return in response to decreasing costs of capital. The Company earned its full allowable rate of return.

1987 was the 12th consecutive year of dividend increases for our common shareholders. In 1987 the Company declared quarterly dividends totalling $0.77 per common share, an increase from $0.7166 in 1986.

Increasing energy demands throughout northeastern North America during the first quarter of 1987 resulted in less surplus energy being available for purchase from the mainland, thereby increasing the need for on-Island generation. Production at the Charlottetown steam plant was up 3.8 times over the 1986 level representing 8.6% of the total net production for 1987. Production at Borden increased to 6,160,770 kWh from the 2,238,390 kWh produced the previous year. Dalhousie production was down 23% due to an extended outage to repair a turbine rotor. Purchased energy from NB Power was up 5.8%. Total net energy produced and purchased for 1987 was 652,862,786 kWh, up 6.6% from the previous year. Decreased energy losses in the system resulted in a reduction in costs of fuel and purchased energy of more than $200,000 for the year.

Construction expenditures to upgrade and expand transmission and distribution systems amounted to $11.2 million, up from the $8.8 million expended in 1986.

Maritime Electric continued to express its views about the possible regulatory reform of electricity exports before the National Energy Board and through appropriate industry seminars and conferences. Although it appears that the terms of the proposed Free Trade Agreement with the United States do not alter our ability to purchase energy at the lowest cost option, the possible move to deregulate electrical energy exports to the United States has caused us to voice our concerns to the appropriate regulatory and government bodies.

R.W. Smith, Chairman of the Board (left) and J.H. Reynolds, President and Chief Executive Officer.

In April, the Company submitted an Advance Plan Report to the Public Utilities Commission (PUC) summarizing our future plans for the provision of electrical energy generation and transmission for Prince Edward Island to the end of the century. The report, which outlines the current status of our ongoing planning studies was prepared in response to a special directive from the PUC. A hearing was held in July, and subsequent appearances are scheduled for 1988.

In July, the Government of PEI announced a policy under which all new generating facilities and cable related capital expenditures would be owned and financed by the Provincial Government. If this policy is pursued, these facilities would then be leased to the Company in a manner similar to the Company's cable leasing agreement with the Government.

The Company continues to explore new ways to improve energy efficiency through the adoption and application of new technologies. The Coal/Water Fuel Test Project begun in 1986 at the Charlottetown plant continued in 1987. The Company also continued to work with the Provincial Department of Forestry and Energy in exploring the increased use of indigenous energy sources, such as the utilization of waste wood for power generation.

Load management is a critical element of our supply/demand planning. A three month advertising campaign designed to educate Island energy consumers concerning "energy peak management", and to secure their assistance in helping us manage energy purchase requirements was undertaken with considerable success.

Efforts continued to broaden the Island shareholder base through the Customer Share Purchase Plan. Since 1983 the number of Island shareholders has risen from 218 to 848, a 289% increase.

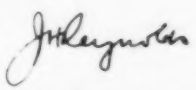
The Company's common stock performed well throughout 1987 in spite of unsettled market conditions closing at $12⅛ per share, a decrease from the 1986 closing price of $13⅛ per share.

One of our long term objectives is to consolidate our planning to meet increased energy demand, and to incorporate technological service improvements designed to enhance customer service and cost management. In doing so, we envisage a continuing appropriate return on investment for our shareholders in both the short and long term period.

We cannot close this message without recognizing the tremendous contribution our employees continue to make to our success. The record of stability and advancement achieved in 1987 could never have been realized without their continued hard work, dedication and enthusiasm. The Directors extend their appreciation for this outstanding effort.

This report together with the Report On Operations, Financial Review and Financial Statements for 1987 are submitted on behalf of the Board of Directors.

R.W. Smith
Chairman of the Board



J.H. Reynolds
President and Chief Executive Officer

Report on Operations

"...to be the most effective, customer sensitive and efficiently run power utility in North America."

This statement was included in remarks made by Maritime Electric President and Chief Executive Officer, John H. Reynolds before the Rotary Club of Summerside, Prince Edward Island, in October, 1987.

Mr. Reynolds said that there was a feeling of pride in the Company, a feeling that "we have the right people, the appropriate plans and the perfect province to try and achieve our goal of being the perfect little utility".

The statement outlines the direction taken by the Company in which we witnessed a series of significant achievements in corporate relationships, technological advances, and financial return.

On the national energy scene the Company continued to pursue this objective through appearances before the National Energy Board and participation in industry and government sponsored energy forums and seminars.

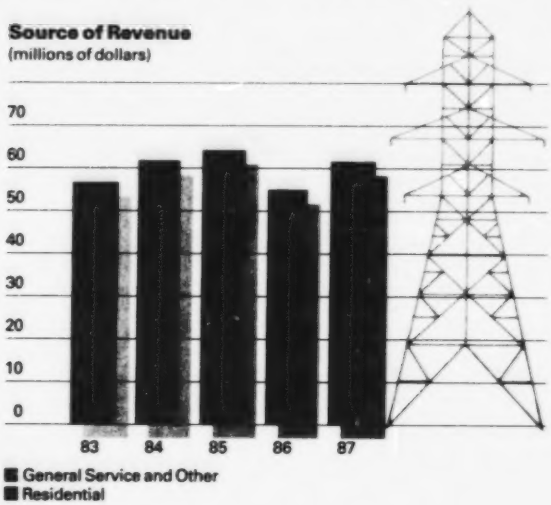
Investors and other Communities

This past year saw further evidence of the Company's commitment to communicate directly with its shareholders, particularly those in Prince Edward Island. In April a series of luncheon meetings were held at various Island locations, during which Company executives and directors met with shareholders and their guests, providing an opportunity for the Company to outline its plans for the future, and for Island investors to express their specific interests and concerns.

In 1985, the Public Utilities Commission of Prince Edward Island (PUC) issued a decision which complimented Maritime Electric Company, Limited on its initiative on developing a Customer Share Purchase Plan and encouraged us to further promote it. The program permits Island power customers to acquire common stock in the Company during specified times of the year without incurring brokerage fees. This initiative to expand the Island shareholder base has been strongly endorsed by the Company's directors.

In 1987, to make the Plan more accessible and comprehensible to small investors on PEI, an advertising campaign was conducted informing Maritime Electric customers about the Plan. Research has indicated that Islanders approve of our efforts in this regard and suggests a need for even more information about the program. As a result of these efforts, the number of Prince Edward Island shareholders in Maritime Electric increased by 43% during 1987.

As part of its demand-side management strategy, Maritime Electric ran another advertising campaign, focusing on load management. Conceived by the Company to reduce the consumption of electricity between the hours of 4 -7 p.m. in order to defer the need for increased capacity during the peak period, the "Beat the Peak" campaign involved newspaper and radio advertising asking for the co-operation of all energy consumers. Island residents responded enthusiastically to the campaign. Research indicates that more than 60% of Island power users took some direct action in response to the Company's energy management initiative, and our objectives were realized.



One way our customers were informed about our "Beat the Peak" load management campaign was through bill inserts.

The completion of Y-111, the second 138kV transmission line between the Bedeque and West Royalty substations was an essential step in meeting the Company's long range transmission objectives.

Technical and Service Improvements

Net capital expenditures totalled $11.2 million for 1987 fully $2.4 million above the 1986 levels. Of these, nearly 40% were related directly to rural power distribution projects.

Our Pole Replacement Program remains the largest single expenditure in the Company's rural energy distribution budget, costing $1.9 million for the 3,200 poles replaced during 1987.

The past year witnessed a significant expansion of the Company's 138kV transmission system. Commissioned in September, a second 43 km high voltage transmission line was constructed between the Bedeque switching station, the termination point of the New Brunswick/Prince Edward Island submarine cable interconnection, and the West Royalty sub-station. The expansion had been four years in design and construction and its completion is considered an essential step in meeting the requirements of the Company's long range energy transmission plans.

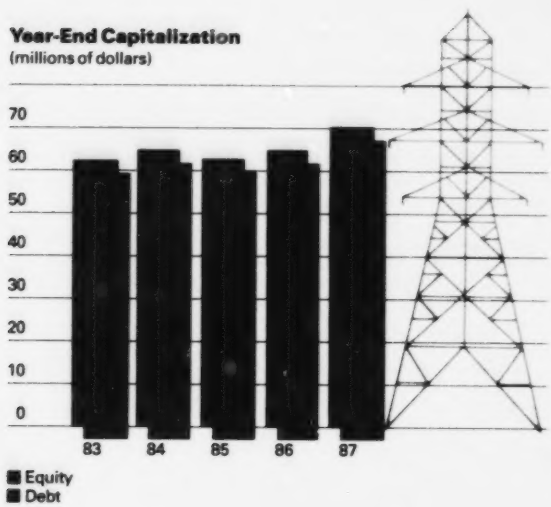
Additional service improvements included installation of three 69kV sulphur hexafluoride (SF_6) circuit breakers at switching stations in Wellington and Lorne Valley. These latter system upgrades, installed at a cost of $207,000, are designed to minimize power outage inconvenience in Prince and King's counties.

Fibre-Optics and SCADA Come of Age

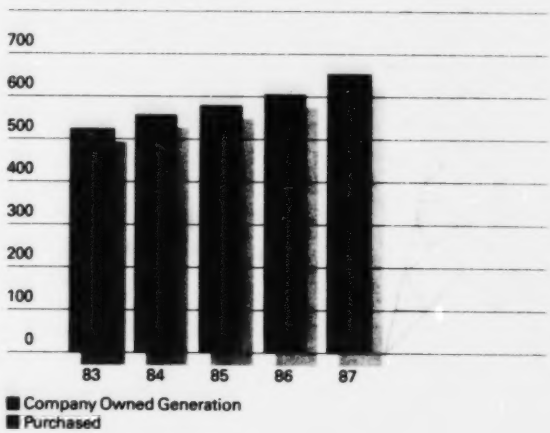
Perhaps the most impressive new service improvement in 1987 was the installation of the new Fibre-Optics Communication System and Supervisory Control and Data Acquisition (SCADA) System, located at the Energy Control Centre (ECC) in Charlottetown. The Fibre-Optics and SCADA Systems were four years and $2.7 million dollars in the making and represent significant advancement in transmission and control technology.

A total of three 69kV sulphur hexafluoride (SF_6) circuit breakers were installed at switching stations in Wellington and Lorne Valley to minimize power outage inconvenience in Prince and King's counties. Jim Lea, Manager of Operations; Paul Smith, Manager Western Region and Ron Johnson, Line Superintendent throw the switch for the Wellington breaker.

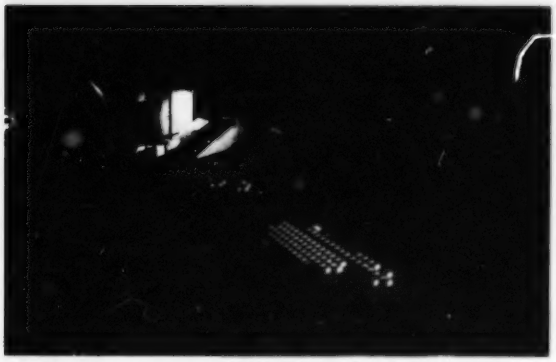
Year-End Capitalization
(millions of dollars)



Sources of Electricity
(millions of kilowatt-hours)



Report on Operations



A look at the control panel for Maritime Electric's newly installed Fibre-Optics Communication System and Supervisory Control and Data Acquisition (SCADA) System. Ted Creighan is one of the control operators who monitors the system 24 hours a day.

The SCADA system gathers power flow data and information on power line voltage levels, then transmits these statistics to the system control operator at the ECC. It is also used for remote control of such facilities as the Charlottetown plant and the Borden generating station, the NB/PEI interconnection system and the new circuit breaker installations at Lorne Valley and Wellington, as well as other major transmission and distribution facilities.

The Fibre-Optics Communication System in combination with SCADA is considered one of the most advanced systems in any power utility in North America. The systems were installed by Maritime Electric personnel following extensive training and system development at the manufacturer's Calgary headquarters.

Social and Environmental Contributions

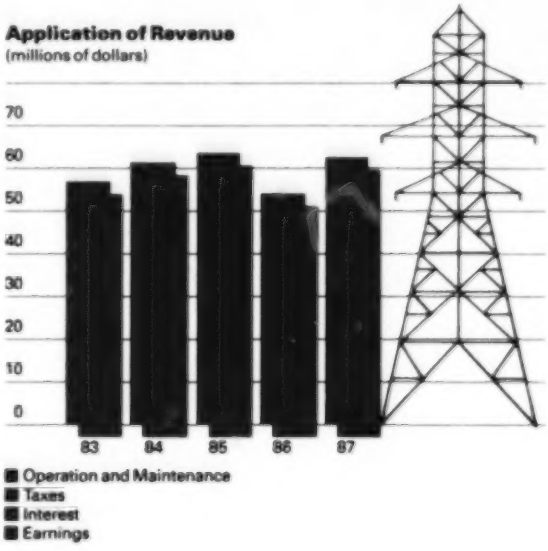
Maritime Electric takes environmental concerns seriously. During the summer of 1987, the Company decided to secure the services of SunOhio Limited to supervise the removal of polychlorinated biphenyls (PCB's) from transformers and other electrical equipment stored at various locations across the Island. Some 70,000 litres of mineral oil were decontaminated by this method at a cost of over $300,000. This initiative was strongly endorsed by energy and environmental officials as well as other concerned groups.

The Company re-activated studies into ways to reduce the frequency of soot emissions from the Charlottetown steam plant in the short term and to fully control emissions over the long term. The plant's role in providing power to Islanders had been reduced in recent years, but today is being called upon more frequently, due to growing demand for electricity.

Maritime Electric renewed its commitment to the cultural fabric of Prince Edward Island through support for the performing arts. During the autumn of 1987, the Company hosted the "Spotlight Series" at the Confederation Centre when we sponsored performances by Les Grandes Ballets Canadiens, the Royal Winnipeg Ballet and the Canadian Opera Company.

The Company's community support policy was also reflected in our 1987 Charitable Donations Program. Major recipients during the year included the Queen Elizabeth Hospital in Charlottetown and the University of Prince Edward Island, as well as many other community groups and organizations.

Our ongoing series of safety lectures was also continued across the province. These safety presentations, held in Island elementary schools, have been extremely well received and are a major component of our public education commitment.



Maritime Electric's polychlorinated biphenyls (PCB) "clean-up" initiative received a great deal of media coverage across the Island. General Manager, Paul H. Newcombe is shown being interviewed by a CBC television crew at the Victoria Cross Substation, one of the various PCB decontamination sites.

Securing our Energy Future

In October, the Company officially noted the 10th anniversary of the New Brunswick/PEI cable interconnection. Completed in 1977 at a cost of $39.2 million the cable is currently leased by Maritime Electric at the cost of $1 per year, in addition to an annual contingency payment of approximately $190,000. It has been estimated that over the past ten years the Interconnection Agreement between Maritime Electric and NB Power has resulted in a saving of $44 million for Island power consumers.

The Company continued to pursue its mandate as the corporate entity responsible for electrical energy in Prince Edward Island. In an effort to effect system improvements and economies, Maritime Electric tendered an offer to buy the Town of Summerside electrical generation plant. In 1986, a consultant's report prepared for Summerside suggested the sale of the utility to Maritime Electric be explored as a fiscal option. The Company responded to an invitation from the Town of Summerside to appraise the system and tender a purchase offer. Although the Town declined Maritime Electric's offer, we felt that the detailed work required in preparing the bid allowed us to further review in detail our future energy provision and planning requirements.

Long range planning for energy supply continued to be a priority in 1987. In July, the Company formally submitted to the PUC its Advanced Planning Report, which outlined Maritime Electric's plans for realizing Island energy security during the next fifteen years. The Commission will be continuing regulatory scrutiny into 1988.

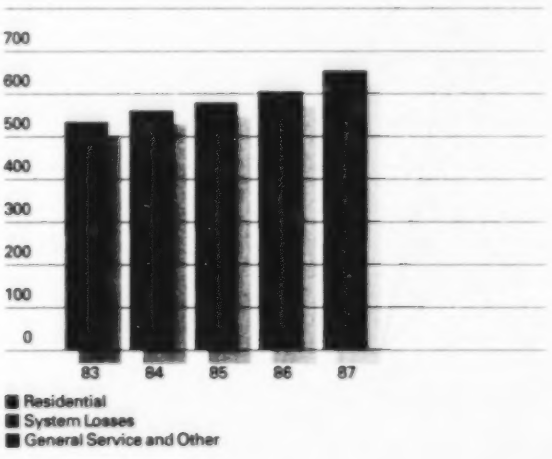
People and Progress

One of the underlying reasons for our success in 1987 has been a continued commitment to develop and retain our skilled and dedicated employees. The Company took specific steps to nurture this human resource and to implement policies responsive to the individual needs of its staff.

This included the completion of a significant occupational health initiative, the introduction of a Company wide smoke free work place program. The program was the result of dedicated efforts by a representative employee committee.

The 10th anniversary of the Interconnection Agreement between NB Power and Maritime Electric was observed in October, 1987. The Agreement has saved Island power consumers approximately $44 million since its inception.

Distribution of Electricity
(millions of kilowatt-hours)



Report on Operations

Our employees' technical competence and commitment to service received international recognition in September when Maritime Electric was contacted by the British Crown Colony of Bermuda to assist in the rehabilitation of its transmission and distribution systems after they were ravaged by Hurricane Emily. Maritime Electric was the first utility to respond and to be of immediate help to Bermuda Power during the crisis period. This was a tremendous tribute to our employees, especially our line personnel, for their ability to excel in emergency situations.

In 1987 Maritime Electric Company, Limited met its challenges in a clear-minded, confident and technically competent fashion. We also gave notice through example that we intend to progress in concert with those groups with whom we have long established relationships: our investors, our customers, community groups, environmental groups, regulators and governments, and our employees.

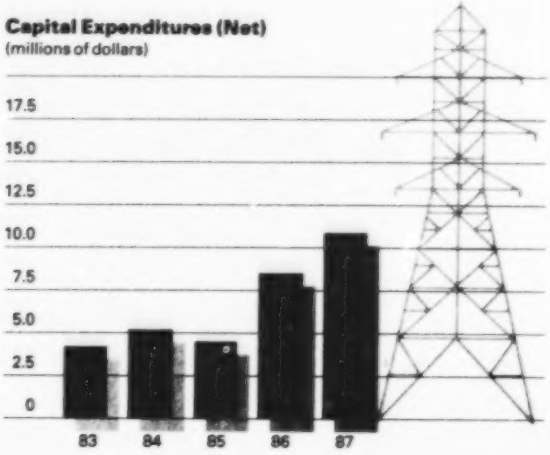
The year 1987 was an active one for Maritime Electric, during which the Company charted the course it must follow to be the "most effective, customer sensitive and efficiently run power utility".

We are making progress towards this goal.

Working in the warmth of a Prince Edward Island summer's day is a treat compared to the perils presented by winter storms on the Island. The expertise of Maritime Electric line crews received international recognition in 1987.

The number of Island shareholders in Maritime Electric increased by 43% in 1987. An information campaign on our Customer Share Purchase Plan encouraged customers to purchase shares as a gift during the holiday season.

Capital Expenditures (Net)
(millions of dollars)



Financial Review

Earnings

Earnings per common share in 1987 amounted to $1.34. The average number of outstanding common shares increased by 30,559 to 3,140,076 in 1987, an increase of one percent. This modest increase in the average number of outstanding common shares is attributable to the Company's Customer/Employee Share Purchase Program initiated in 1983. 1986 earnings were $1.41 on 3,109,517 common shares. Net earnings applicable to common shares decreased by 3.9% from $4.38 million in 1986 to $4.21 million in 1987. Earnings for both 1986 and 1987 represent the maximum implicit in the Public Utilities Commission's allowed rate of return on common equity.

Dividends declared per common share for the year were $0.77 compared to $0.7166 in 1986. Quarterly dividends declared on Maritime Electric common shares were increased from 19 cents to 20 cents effective for the fourth quarter of 1987. Equity per common share was $10.05 at the end of 1987, up from $9.45 at December 31, 1986.

Statistical Sales Information

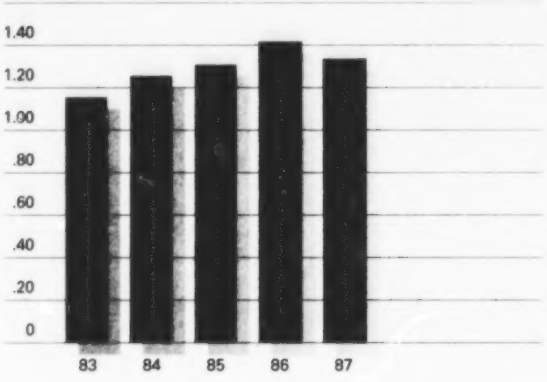
Sales revenue of Maritime Electric is divided relatively equally between the two groups residential and general service and other. In 1987, $29.2 million or 47.8% of sales was generated in the residential sector compared to $25.9 million or 48% in 1986. General service and other sales amounted to $31.9 million or 52.2% in 1987 compared to $28.1 million or 52% in 1986.

Sales expressed in millions of kilowatt-hours show residential customers providing 44.7% of the total in 1987 compared to 45.1% in 1986 and general service and other customers supplying 55.3% in 1987 compared to 54.9% in 1986.

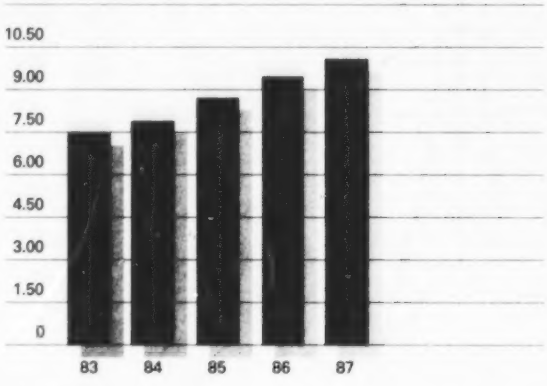
Statistics on the number of customers show that the residential customer group declined to 82.9% of the total customers in 1987 from 83.3% in 1986, while the representation in the general service and other group increased from 16.7% of the total in 1986 to 17.1% in 1987.

These statistics show that there was slightly more activity in the business sector in 1987 than in the residential area, however, the historic relationship (between the two sales groups) has been altered very little. Reference to the ten year summary on page 19 will bear this out.

Earnings per Share
(in dollars)



Equity per Share
(in dollars)



Sales Revenues

$ (Millions)	1987	%	1986	%
Residential	$29.2	47.8	$25.9	48.0
General Service & Other	31.9	52.2	28.1	52.0
	$61.1	100.0	$54.0	100.0

Sales Statistics

Kilowatt-hours (Millions)	1987	%	1986	%
Residential	259.2	44.7	242.9	45.1
General Service & Other	320.6	55.3	295.6	54.9
	579.8	100.0	538.5	100.0

Customer Statistics

Customer (Thousands)	1987	%	1986	%
Residential	39.4	82.9	38.5	83.3
General Service & Other	8.1	17.1	7.7	16.7
	47.5	100.0	46.2	100.0

Revenue and Costs

In 1987, operating revenues totalled $61.1 million, an increase of 13.1% over the 1986 total of $54 million. This growth is due primarily to increased sales and a higher level of fuel clause revenue.

The cost of generation and purchased energy increased from $25.5 million to $31.7 million, an increase of 24.3%, and amounted to 51.9% of sales in 1987 as compared to 47.2% of sales in 1986.

Other operating and maintenance expenses in 1987 remained the same as 1986 at $11.5 million, declining, however, as a percentage of sales from 21.2% to 18.8%.

Income tax expense increased from $4.9 million in 1986 to $5.4 million in 1987. This reflects in large part the increase in 1987 in the provincial income tax rate. Expressed as a percentage of sales, 1987 income tax dropped to 8.8% from 9.1% in 1986.

Depreciation expense increased in 1987 to $4 million from $3.6 million in 1986, however, expressed as a percentage of sales, depreciation declined to 6.6% from 6.7%.

The breakdown of revenue and costs for the year was as follows:

$ (Millions)	1987	%	1986	%
Sales Revenue	$61.1	100.0	$54.0	100.0
Expenses				
Cost of generation and purchased energy	31.7	51.9	25.5	47.2
Other operating and maintenance	11.5	18.8	11.5	21.2
Income Tax	5.4	8.8	4.9	9.1
Depreciation	4.0	6.6	3.6	6.7
Net Interest and Preferred Dividends	4.2	6.9	4.1	7.6
Common Dividends	2.4	3.9	2.2	4.1
Earnings re-invested in the Company	1.9	3.1	2.2	4.1

Net interest and preferred dividends increased marginally from $4.1 million in 1986 to $4.2 million in 1987, however, expressed as a percentage of sales, declined to 6.9% from 7.6%.

Common dividends increased from $2.2 million in 1986 to $2.4 million in 1987 and represented 3.9% of sales in 1987 compared to 4.1% in 1986.

Earnings re-invested in the Company declined to $1.9 million in 1987 from $2.2 million in 1986, and expressed as a percentage of sales, dropped to 3.1% in 1987 compared to 4.1% in 1986.

It should be noted that the operation of the energy cost adjustment mechanism (fuel clause) has caused some distortion in the comparability of numbers between years. For example, revenue from basic rates totalled $59.7 million in 1987 compared to $57 million in 1986, whereas fuel clause and miscellaneous revenue amounted to $1.4 million in 1987 and a negative $3 million in 1986.

Revenue and Costs

- 51.9% Cost of Generation and Purchased Energy
- 18.8% Other Operating and Maintenance
- 8.8% Income Tax
- 6.6% Depreciation
- 6.9% Net Interest and Preferred Dividends
- 3.9% Common Dividends
- 3.1% Earnings Re-invested in the Company

Changes in Accounting Policies and Methods

In 1987 the Company changed the accounting methods by which its income account provisions for pension costs are determined, so as to bring the methods used in line with those contained in the Canadian Institute of Chartered Accountants' recommendation on accounting for pension costs and obligations. Details of the methods adopted and their effect on earnings are set out in notes 1 and 5 to the Consolidated Financial Statements.

Current Cost Accounting

The Company has maintained an abbreviated presentation of the impact of inflation. It is still felt that in the capital intensive regulated environment in which electric utilities operate, there is a message to be shared with this type of interpretation. This information is presented on pages 17 and 18 under the heading "The Impact of Inflation."

Consolidated Balance Sheet

		December 31	
		1987	1986
Assets	**Fixed assets** (Note 2):		
	Land, buildings, plant and equipment	**$125,594,574**	$115,751,009
	Less: Accumulated depreciation	**41,737,106**	38,735,043
		83,857,468	77,015,966
	Current assets:		
	Cash and term deposits	**–**	5,600,664
	Accounts receivable	**5,072,603**	4,012,452
	Income taxes recoverable	**–**	1,050,098
	Materials and supplies, at cost	**3,306,804**	2,497,007
	Prepaid expenses	**198,777**	202,205
		8,578,184	13,362,426
	Deferred charges	**585,862**	231,939
		$ 93,021,514	$ 90,610,331
Shareholders' Equity and Liabilities	**Shareholders' equity** (Note 3):		
	Common shares	**$ 4,577,650**	$ 4,092,886
	Retained earnings	**27,171,998**	25,386,142
		31,749,648	29,479,028
	Preferred shares	**8,500,000**	8,600,000
		40,249,648	38,079,028
	Long-term debt (Note 4):	**17,565,000**	17,698,000
	Current liabilities:		
	Bank indebtedness	**13,097,388**	–
	Accounts payable and accrued liabilities	**6,342,004**	5,764,278
	Cost-savings refundable to customers	**670,086**	899,475
	Dividends payable	**827,954**	793,121
	Deferred energy cost adjustment	**717,517**	5,731,394
	Income taxes payable	**195,953**	–
	Long-term debt due within one year	**185,000**	9,442,000
		22,035,902	22,630,268
	Deferred credits:		
	Deferred income taxes	**7,291,978**	6,539,085
	Contributions	**5,878,986**	5,663,950
		13,170,964	12,203,035
		$ 93,021,514	$ 90,610,331

See accompanying summary of accounting policies and notes.

Approved by the Board:

Director

Director

Consolidated Statement of Earnings

	Year ended December 31	
	1987	1986
Operating revenue	**$61,111,248**	$53,993,649
Operating expenses	**43,209,523**	37,037,476
Provision for depreciation	**4,040,557**	3,595,802
	47,250,080	40,633,278
Operating income	**13,861,168**	13,360,371
Other expenses:		
Interest expense on long-term debt	**3,528,489**	3,808,834
Interest revenue	**(174,832)**	(586,977)
Other	**(56,504)**	(51,171)
	3,297,153	3,170,686
Earnings before income taxes	**10,564,015**	10,189,685
Provision for income taxes:		
Current	**4,699,313**	4,553,730
Deferred	**743,450**	321,350
	5,442,763	4,875,080
Net earnings	**5,121,252**	5,314,605
Preferred dividend requirements	**911,781**	932,355
Earnings applicable to common shares	**$ 4,209,471**	$ 4,382,250
Earnings per common share	**$1.34**	$1.41

See accompanying summary of accounting policies and notes.

Consolidated Statement of Retained Earnings

	Year ended December 31	
	1987	1986
Balance at beginning of year	**$25,386,142**	$23,237,893
Net earnings	**5,121,252**	5,314,605
	30,507,394	28,552,498
Dividends:		
Preferred shares –		
5%	**30,000**	30,000
Series A	**97,125**	107,625
Series B	**342,156**	352,230
Series C	**442,500**	442,500
Common shares	**2,423,615**	2,234,001
	3,335,396	3,166,356
Balance at end of year	**$27,171,998**	$25,386,142

See accompanying summary of accounting policies and notes.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31	
	1987	1986
Cash from operations:		
Net earnings	**$ 5,121,252**	$ 5,314,605
Charges to operations of depreciation, deferred income taxes and other items not involving an outlay of cash in current year	**4,883,968**	4,236,447
Changes in operating working capital-		
Increase (decrease) in payables	**(3,419,489)**	1,124,546
Decrease (increase) in receivables and materials and supplies	**(1,866,520)**	1,668,001
Other	**(444,441)**	–
	4,274,770	12,343,599
Less: Dividends paid	**3,300,563**	3,139,092
	974,207	9,204,507
Cash used in capital transactions:		
Expenditures for fixed assets (net)	**11,237,712**	8,846,461
Redemption of long-term debt	**9,390,000**	346,936
Redemption of preferred shares	**100,000**	100,000
Purchases of common shares	**71,727**	181,267
	20,799,439	9,474,664
Less:		
Contributions for extensions	**570,689**	778,378
Subscription for common shares	**556,491**	451,476
	19,672,259	8,244,810
	$(18,698,052)	$ 959,697
Increase in bank indebtedness	**$(13,097,388)**	$ –
Increase (decrease) in cash and term deposits	**(5,600,664)**	959,697
	$(18,698,052)	$ 959,697

See accompanying summary of accounting policies and notes.

Auditors' Report

To the Shareholders of
Maritime Electric Company, Limited:

We have examined the consolidated balance sheet of Maritime Electric Company, Limited as at December 31, 1987 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change, with which we concur, in the method of accounting for pension costs and obligations as described in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants

February 12, 1988

Summary of Accounting Policies

Principles of consolidation:

These consolidated financial statements include the accounts of Maritime Electric Company, Limited and its wholly-owned subsidiary, Maritime Electric (P.E.I.) Limited.

Regulation:

The Company and its subsidiary are engaged in the purchase and production of electricity and its sale in Prince Edward Island and are regulated by the Public Utilities Commission of Prince Edward Island under The Electric Power and Telephone Act.

Fixed assets:

Additions are made to fixed assets and costs are capitalized in accordance with the regulations established by the Public Utilities Commission.

The cost of additions to fixed assets represents the cost of materials, related services, direct labour, interest during construction and other applicable indirect overheads.

Interest during construction is calculated on a monthly basis at a rate equal to the rate of return approved by the Public Utilities Commission.

Retirements from fixed assets are made to accumulated depreciation on the basis of original cost plus retirement expenses less salvage.

Depreciation is provided on a straight-line basis using a composite rate of 3.5% per annum. This rate is reviewed by the Public Utilities Commission from time to time and is estimated to amortize the cost of fixed assets, less salvage value, over their useful lives. Depreciation on the cost of contributed assets is charged to the contributions account.

Materials and supplies:

Materials and supplies are valued at average cost.

Contributions:

Contributions towards the cost of construction for service connections and those arising from the purchase of lines from the government are deferred. These amounts are written off over the life of the assets by an annual depreciation charge.

Revenue:

Revenue is recognized on billings rendered monthly to customers on a cyclical basis.

Deferred energy cost adjustment:

The Company's rates include an energy cost adjustment factor which permits the recovery of increased fuel costs by a supplementary charge to customers based on a moving average formula. Any over or under recovery in the current year is deferred.

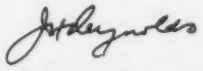
Management's Report

The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using procedures established by management and the framework of accounting policies outlined above. In management's opinion they fairly reflect, within reasonable limits of materiality, the Company's financial position, results of operations, and changes in financial position for the fiscal period ended December 31, 1987. Financial and other operating data contained elsewhere in this report are consistent with the consolidated financial statements.

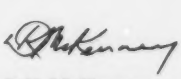
Responsibility for the financial statements to shareholders rests with the Board of Directors.

An Audit Committee of Directors is appointed by the Board to review the financial statements in detail with management and the external auditors, and to report to the Directors prior to their approval of the financial statements for publication.

The Company's external auditors, Price Waterhouse, are appointed by the shareholders to provide an independent review of management's discharge of their responsibilites as they relate to the financial statements prepared by management. The auditors' report is set out on page 13.

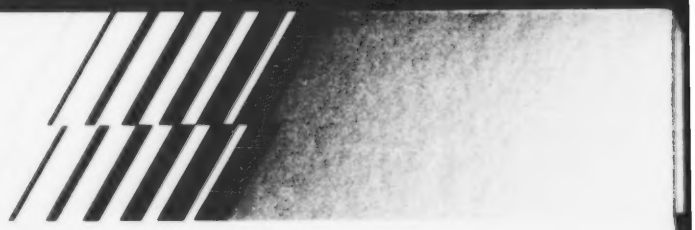


J.H. Reynolds
President and Chief Executive Officer



D.K. McKenney
Director of Financial Planning

Notes to Consolidated Financial Statements December 31, 1987



1. Change in accounting policy:

In 1987 the Company adopted, on a prospective basis, the Canadian Institute of Chartered Accountants' new recommendations on accounting for pension costs and obligations. This change decreased pension cost by $312,400, however there is no effect on net earnings for 1987 as there was a corresponding increase in cost-savings refundable to customers. See Note 5.

2. Fixed assets:

	December 31 1987	December 31 1986
Generating plants	$ 42,411,671	$ 42,388,378
Distribution systems	57,237,559	49,743,294
Transmission lines and substations	22,608,775	17,618,614
Other	2,842,420	2,312,771
Property under construction	494,149	3,687,952
	$125,594,574	$115,751,009
Accumulated depreciation	41,737,106	38,735,043
	$ 83,857,468	$ 77,015,966

Interest in the amount of $505,000 (1986 – $195,000) has been capitalized during construction.

3. Shareholders' equity:

(1) Authorized capital-

The authorized capital consists of:

(a) An unlimited number of common shares with no par value.
(b) An unlimited number of cumulative redeemable voting preferred shares, issuable in series with the quantities, rights, restrictions and conditions established by the Board of Directors at time of issue.
(c) 6,000 5% cumulative non-voting preferred shares redeemable at $100 per share.
(d) An unlimited number of 6% non-cumulative non-voting preferred shares subordinate to all other preferred shares and redeemable at $10 per share.

(2) Issued capital-

	December 31 1987	December 31 1986	December 31 1987	December 31 1986
	(shares)		(amount)	
Common shares (Note 3 (4)(a))	3,158,216	3,121,098	$4,577,650	$4,092,886
Voting preferred-				
Series A	45,000	50,000	$ 900,000	$1,000,000
Series B	40,000	40,000	4,000,000	4,000,000
Series C	150,000	150,000	3,000,000	3,000,000
5% non-voting preferred	6,000	6,000	600,000	600,000
	241,000	246,000	$8,500,000	$8,600,000

(3) Voting preferred shares series rights-

(a) Series A shares are entitled to a 10½% dividend and are redeemable after January 31, 1984 at a premium of 6% which reduces to zero by 1992. In addition, five thousand shares are to be redeemed at par each year to meet sinking fund requirements.
(b) Series B shares are entitled to a dividend equal to 52% of the average interest rate on specified five-year guaranteed investment certificates plus 3.25 percentage points. This dividend rate, currently 8.554% (8.554% in 1986), is adjusted at five-year intervals. Commencing in 1987 the shareholders can require an annual redemption of up to 5% of the original issue at subscription value. In 1991 and every five years thereafter either the Company or the shareholders may require redemption, in whole or in part, of the balance of the issue at subscription value.
(c) Series C shares are entitled to a 14¾% dividend and are redeemable after August 31, 1988 at a premium of 5% which reduces to zero by 1993. The shareholders have the right to require redemption, in whole or in part, on September 1, 1988 at subscription value. The Company is obligated to purchase for cancellation a limited number of shares each year if they are available at subscription value.

(4) Common shares-

(a) Changes in Common shares during the year were as follows:

Shares outstanding at beginning of year	3,121,098
Issued under Share purchase plans (Note 3 (5))	42,454
Purchased for cancellation (Note 3 (4)(b))	(5,336)
Shares outstanding at end of year	3,158,216

(b) During 1987, the Corporation purchased for cancellation 5,336 common shares for $71,727 cash.

(5) Share option programs-

The Company has a Customer Share Purchase Plan under which each customer may make a quarterly subscription for up to $4,000 worth of common shares of the Company at market value and an Employee Share Purchase Plan whereby each employee may subscribe up to 10% of his pay for the purchase of common shares of the Company at 90% of market value.

Subscriptions of $556,490 (1986 – $451,476) received under these plans resulted in the issue of 42,454 shares during 1987 (1986 – 37,438). A balance of 43,357 shares remains from the original 1983 allotment of 180,000 shares for issuance under these plans.

4. Long-term debt:

		December 31 1987	December 31 1986
First mortgage sinking fund bonds			
7¾%	due 1987	$ –	$ 1,650,000
18¾%	due 1987	–	7,680,000
17¼%	due 1990	5,700,000	5,760,000
8¾%	due 1993	2,550,000	2,550,000
11%	due 1996	4,000,000	4,000,000
10⅜%	due 1997	3,000,000	3,000,000
10⅜%	due 1998	2,500,000	2,500,000
		17,750,000	27,140,000
Less: Portion due within one year		185,000	9,442,000
		$17,565,000	$17,698,000

The first mortgage sinking fund bonds have a sinking fund requirement of 1% of the principal per annum. The annual requirement for sinking fund and for repayment of maturing debt for each of the next five years is: 1988 – $185,000; 1989 – $185,000; 1990 – $5,705,000; 1991 – $125,000; 1992 – $125,000.

Pursuant to the terms of the Deed of Trust and Mortgage, the Company has mortgaged or pledged either by way of a first and specific charge or by way of a floating charge all of its and its subsidiary's properties and assets as security for the first mortgage bonds.

5. Pension costs and obligations:

The Company maintains a contributory defined benefit pension plan covering all of its regular employees. Based on an actuarial report, the present value of accrued pension benefits was $7,831,000 and the value of pension plan assets was $8,498,000.

In 1981 the Company adopted a revised pension plan covering all of its regular employees. All the assets of the previous plan have been absorbed into the 1981 plan.

The Company makes payments, to retired employees, of supplements to pensions received under the previous plan. Under the 1981 plan it makes payments to retiring employees to bring the pensions payable from the plan assets up to the levels specified under the 1981 plan. Such payments, on the direction of the Public Utilities Commission, are expensed as paid.

The Impact of Inflation

The financial statements on pages 11, 12 and 13 have been prepared using the historical cost convention, which is the basis used in most countries for financial reporting, taxation, and utility regulation. Asset values are based on original cost and no adjustments are made to reflect changing price levels. This method is consistent and easily understood, but it does not reflect the impact of inflation.

The statements which follow provide a different perspective, and are prepared using one of the methods recommended by the Canadian Institute of Chartered Accountants to account for the effects of changing prices. This method assumes that the Company will continue to provide the same level of services, and that the cost of additional depreciation and other changes in operating expenses are shared proportionately between equity investors and creditors.

We believe that this form of current cost reporting can provide useful information but would caution readers to regard it as a supplement to the historical cost financial statements, not as a substitute for them.

The current cost basis of reporting shows the following significant differences from the historical cost basis:

1. An increase in the net valuation of fixed assets of $64,893,000, resulting from an increase in cost of $159,389,000, and an increase in accumulated depreciation of $94,496,000.

2. An increase of $62,178,000 in common shareholders equity to reflect the increased value of assets purchased over the years with their investments.

3. A similar increase of $3,421,000 in contributions from customers toward fixed asset acquisitions.

4. An increase in depreciation expense of $4,749,000 to show the full cost of funding the replacement of existing fixed assets.

5. A decrease of $3,135,000 in annual earnings for common shareholders.

6. A financing adjustment of $1,344,000 to represent the benefit to the Company of the declining real value of long-term debt.

7. An increase in provision for maintenance of operating capability of $3,089,000 to reflect the increase in common share value during the year which resulted from the changing value of assets.

Balance Sheet		December 31, 1987 (in thousands of dollars) Historical Cost	Current Cost
	Assets:		
	Fixed Assets	**$125,594**	$284,983
	Less: Accumulated depreciation	**41,737**	136,233
		83,857	148,750
	Current Assets:		
	Accounts receivable	**5,072**	5,072
	Materials & supplies	**3,307**	4,013
	Other	**199**	199
		8,578	9,284
	Deferred charges	**586**	586
		$ 93,021	$158,620
	Shareholders' Investment and Liabilities:		
	Common shareholders' investment	**$ 31,750**	$ 93,928
	Preferred shares and long-term debt	**26,250**	26,250
	Current liabilities	**21,850**	21,850
	Deferred credits		
	Deferred income taxes	**7,292**	7,292
	Contributions	**5,879**	9,300
		13,171	16,592
		$ 93,021	$158,620

Statement of earnings and common shareholders' investment		1987 (in thousands of dollars) Historical Cost	Current Cost
	Revenues	**$61,111**	$61,111
	Operating expenses	**43,209**	42,939
	Depreciation	**4,041**	8,790
	Interest and preferred dividends	**4,209**	4,209
	Financing adjustment	**–**	(1,344)
		51,459	54,594
	Earnings before tax	**9,652**	6,517
	Income tax	**5,443**	5,443
	Earnings for common shareholders	**4,209**	1,074
	Common shareholders' investment		
	Start of year	**29,479**	93,048
	Invested in year	**485**	485
	Dividends in year	**(2,423)**	(2,423)
	Increase in provision for maintenance of operating capability	**–**	3,089
	Financing adjustment	**–**	(1,344)
	End of year	**$31,750**	$93,929

Ten-Year Summary

Statement of Income ($'000)	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Operating Revenue	61,111	53,994	64,119	61,848	56,965	53,743	45,651	36,261	31,809	26,749
Operating Expenses	43,209	37,037	47,277	45,648	41,360	38,460	35,614	27,512	24,182	19,028
Depreciation	4,041	3,596	3,448	3,310	2,979	2,832	2,256	1,998	1,789	1,866
Finance Charges	3,297	3,171	3,900	3,963	4,104	4,915	2,752	1,943	1,552	1,616
Provision for Income Taxes	5,443	4,875	4,460	4,092	3,990	3,608	2,474	2,267	1,942	1,901
Net Earnings	5,121	5,315	5,034	4,835	4,532	3,928	2,555	2,541	2,605[a]	2,338
Balance Sheet Data ($'000)										
Fixed Assets	125,594	115,751	107,958	103,923	99,473	95,453	83,268	70,140	64,830	59,518
Accumulated Depreciation	41,737	38,735	35,857	32,651	29,723	27,000	24,199	22,131	20,316	18,647
Capitalization:										
Total Debt	30,847	27,140	27,493	31,315	31,531	32,642	30,981	23,829	21,880	19,358
Shareholders' Equity										
Preferred	8,500	8,600	8,700	8,800	8,900	9,000	6,100	2,200	2,300	2,400
Common	31,750	29,479	27,058	24,866	22,814	21,053	17,750	16,954	15,675	14,145
Share Data [f]										
Earnings per Common Share ($)	1.34	1.41	1.31	1.25	1.15	1.16	.77	.87	.89[a]	.78
Dividends per Common Share ($)	.77	.72	.6733	.63	.60	.57	.47	.39	.32	.24
Number of Common Shares										
Outstanding at Year End (000's)	3,158	3,121	3,096	3,072	3,042	3,042	2,700	2,700	2,700	2,700
Book Value per Common Share ($)	10.05	9.45	8.74	8.09	7.50	6.92	6.57	6.28	5.81	5.24
Market Value per Common Share [b]										
High ($)	14½	14	10⅞	9⅞	8¾	7	5⅛	5⅜	5⅛	5
Low ($)	10¼	10¼	9⅝	7⅝	6⅝	4¼	4⅛	3⅞	3⅝	3¼
Market Volume –										
Shares Traded [c] (000's)	276.2	348.7	440.1	179.1	176.7	302.1	112.2	446.7	228.3	200.1
Financial Ratios										
Capital Structure (percent)										
Total Debt	43	42	43	48	50	52	57	55	55	54
Preferred	12	13	14	14	14	14	11	5	6	7
Common	45	45	43	38	36	34	32	40	39	39
Coverage (times)										
Total Debt Interest	3.8	3.6	3.3	3.2	3.0	2.5	2.7	3.2	3.4	3.4
Total Debt Interest and Preferred Dividends	2.6	2.4	2.2	2.2	2.1	2.0	2.0	2.7	2.8	2.8
Return on Average Common Equity (percent)	13.75	15.5	15.5	16.0	16.0	16.4	12.1	14.3	16.1	15.8
Regulatory Data										
Rate Base ($'000)	56,531[d][e]	50,524[d][e]	53,698[d][e]	55,015[d]	51,491[d]	49,942[d]	49,711	47,204	40,147	39,508
Return on Rate Base (percent)										
Allowed	10.35[d]	11.13–11.30[d]	11.13–11.30[d]	11.60–11.75[d]	11.60–11.75[d]	10.75–12.25[d]	10.75–12.25	9.25–10.0	9.25–10.0	9.25–10.0
Earned	10.46[d]	11.29[d]	11.23[d]	10.49[d]	10.7[d]	11.59[d]	9.34	9.49	9.70	9.96
Operating Data										
Sources of Energy (million kWh)										
Purchased	483.0	456.6	433.5	413.2	385.6	392.9	467.8	388.9	361.3	268.9
Company Owned Generation	169.9	151.0	145.5	147.0	145.2	117.6	46.6	125.7	151.0	209.6
Total	652.9	607.6	579.0	560.2	530.8	510.5	514.4	514.6	512.3	478.5
Sales (million kWh)										
Residential	259.2	243.0	230.1	222.1	212.4	200.3	204.8	202.4	198.4	188.2
General Service & Other	320.6	295.6	285.0	271.7	258.0	253.2	255.9	257.4	257.8	239.6
Total	579.8	538.6	515.1	493.8	470.4	453.5	460.7	459.8	456.2	427.8
Customers (000's)										
Residential	39.4	38.5	37.7	36.8	36.0	34.9	34.3	34.3	33.6	32.6
General Service & Other	8.1	7.7	7.4	7.3	7.1	7.4	7.7	7.8	7.5	6.9
Total	47.5	46.2	45.1	44.1	43.1	42.3	42.0	42.1	41.1	39.5
Number of Employees	202	203	201	195	193	196	196	200	204	198

Notes:

(a) Includes extraordinary item of $261,160 – gain on sale of office building

(b) Price quoted on the Toronto Stock Exchange

(c) Combined volume of shares traded on the Toronto and Montreal Stock Exchanges

(d) Maritime Electric (Nonconsolidated)

(e) Average 1985–1987, Year-End 1978–1984

(f) Share data reflects 3 for 1 Split (June 5, 1986)

Corporate Directory

Board of Directors

A.D. Cameron
Senior Consultant,
Monenco Consultants
Limited, Montreal

K.V. Cox
Chairman of the Board,
The New Brunswick
Telephone Company,
Limited, Saint John
Chairman of the Board,
Bruncor Inc., Saint John

B.L. de la Giroday*
Treasury Analyst,
B.C. Hydro

A.S. Gordon*
Consultant, Merrill Lynch
Canada Inc., Montreal

A.H. Holman, O.C.
Retired, Charlottetown

A.W. Howard
Director, TransAlta Utilities
Corporation, Calgary

W.G. Lea, Q.C.
Partner, Campbell, Lea,
Michael, McConnell &
Pigot, Charlottetown

G.A. McMurdo*
Farmer, Kensington

M.A. Pavey
Consultant,
Beaconsfield

J.H. Reynolds
President and Chief
Executive Officer,
Maritime Electric
Company, Limited,
Charlottetown

D.A. Scales
President, Island
Fertilizers Ltd.,
Charlottetown

R.W. Smith*
Chairman of the Board,
Maritime Electric
Company, Limited,
Charlottetown

*Members of the Audit
Committee

Officers

R.W. Smith
Chairman of the Board

J.H. Reynolds
President and Chief
Executive Officer

P.H. Newcombe
General Manager

J.L. Boomhower
Director of Facilities
Planning

D.K. McKenney
Director of Financial
Planning & Secretary-
Treasurer

M.A. Pavey
Director of Strategic
Planning

H.B. Curtis
Assistant Secretary-
Treasurer

Head Office

Confederation Court Mall,
134 Kent Street,
Charlottetown, P.E.I.
C1A 7N2
Telephone: (902) 566-1599
Telex: 014-44115
Fax (902) 566-2692

Act of Incorporation
Canada Business
Corporations Act

Auditors
Price Waterhouse,
Chartered Accountants

Banker
Royal Bank of Canada

Counsel
Campbell, Lea, Michael,
McConnell & Pigot,
Charlottetown
Byers Casgrain, Montreal

**Exchange Listings –
Common Stock**
Toronto Stock Exchange
Montreal Exchange
Ticker symbol – MEC

**Transfer Agent
and Registrar**
Montreal Trust Company
Charlottetown, Halifax,
Montreal, Toronto,
Winnipeg